

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Cadillac Wexford Transit Authority	County Wexford
Fiscal Year End 9-30-06	Opinion Date October 18, 2006	Date Audit Report Submitted to State December 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

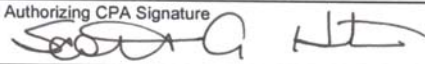
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789		
Street Address 134 West Harris Street		City Cadillac	State MI	Zip 49601
Authorizing CPA Signature 		Printed Name Scott A. Hunter, C.P.A.		License Number 1101009890

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SEPTEMBER 30, 2006

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SEPTEMBER 30, 2006

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

October 18, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cadillac-Wexford Transit Authority
Cadillac, Michigan

We have audited the accompanying basic financial statements of the Cadillac-Wexford Transit Authority, a component unit of Wexford County, Michigan as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Cadillac-Wexford Transit Authority, as of September 30, 2006, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Cadillac-Wexford Transit Authority, Cadillac, Michigan basic financial statements. The accompanying information listed as supporting schedules and statistical tables in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Cadillac-Wexford Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CADILLAC-WEXFORD TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

This section of the Authority's Comprehensive Annual Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2006. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2006, by \$1,282,057. Of this amount, \$457,128 represents net assets which are not invested in capital assets.
- The Authority's total net assets decreased by \$204,601.
- The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Financial Analysis

For the year ended September 30, 2006, assets exceeded liabilities by \$1,282,057. Transit is a capital-intensive enterprise, and approximately 64.34% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

CADILLAC-WEXFORD TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

Summary Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Assets:		
Current Assets	\$ 579,959	\$ 596,103
Capital Assets (Net)	824,929	1,034,768
Total Assets	<u>\$ 1,404,888</u>	<u>\$ 1,630,871</u>
Liabilities:		
Current Liabilities	\$ 122,831	\$ 144,213
Net Assets:		
Invested in Capital Assets	824,929	1,034,768
Unrestricted	<u>457,128</u>	<u>451,890</u>
Total Liabilities and Net Assets	<u>\$ 1,404,888</u>	<u>\$ 1,630,871</u>

The Authority's net assets decreased by \$204,601 in 2006. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets. Also shown is the change for the year ended September 30, 2005.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Operating Revenue	\$ 254,156	\$ 247,557
Operating Expenses	<u>1,568,158</u>	<u>1,607,450</u>
Operating Loss	<u>\$ (1,314,002)</u>	<u>\$ (1,359,893)</u>
Taxes	\$ 341,934	\$ 312,314
Other Nonoperating Revenue	767,467	738,136
Total Nonoperating Revenue	<u>\$ 1,109,401</u>	<u>\$ 1,050,450</u>
Net Income (Loss)	(204,601)	(309,443)
Capital Grants	<u>0</u>	<u>95,830</u>
Change in Net Assets	<u>\$ (204,601)</u>	<u>\$ (213,613)</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

Operating Revenues

The following table shows 2006 revenue compared to 2005:

<u>REVENUES</u>	<u>2006 AMOUNT</u>	<u>2006 PERCENT OF TOTAL</u>	<u>2005 AMOUNT</u>	<u>2006 PERCENT OF TOTAL</u>
Operating Revenue	\$ 254,156	18.64%	\$ 247,557	19.07%
Interest Income	1,878	0.14%	2,930	0.23%
Property Tax	341,934	25.08%	312,314	24.06%
Federal Assistance	236,030	17.31%	176,390	13.59%
State Assistance	529,559	38.83%	558,416	43.02%
Gain on Sale of Assets	0	0.00%	400	0.03%
	<u>0</u>	<u>0.00%</u>	<u>400</u>	<u>0.03%</u>
Total Revenue	<u>\$1,363,557</u>	<u>100.00%</u>	<u>\$1,298,007</u>	<u>100.00%</u>
<u>CAPITAL CONTRIBUTIONS</u>				
Federal	\$ 0	N/A	\$ 76,664	80.00%
State	0	N/A	19,166	20.00%
	<u>0</u>	<u>N/A</u>	<u>19,166</u>	<u>20.00%</u>
	<u>\$ 0</u>	<u>N/A</u>	<u>\$ 95,830</u>	<u>100.00%</u>

The federal reimbursement rate increased to 17.00% from 12.40% for eligible expenditures. The State reimbursement rate increased to 39.2545% from 38.4376%.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

Operations - Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

CADILLAC-WEXFORD TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

The following table shows the expenses for 2006 compared to 2005 by department:

<u>DEPARTMENT</u>	<u>2006 AMOUNT</u>	<u>2006 PERCENT OF TOTAL</u>	<u>2005 AMOUNT</u>	<u>2006 PERCENT OF TOTAL</u>
Operations	\$ 836,414	53.34%	\$ 859,032	53.44%
Maintenance	232,408	14.82%	227,888	14.18%
Administration	279,027	17.79%	288,755	17.96%
Depreciation	220,309	14.05%	231,775	14.42%
Total Expenses	<u>\$1,568,158</u>	<u>100.00%</u>	<u>\$1,607,450</u>	<u>100.00%</u>

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2006 compared to 2005 by object:

<u>OBJECT</u>	<u>2006 AMOUNT</u>	<u>2006 PERCENT OF TOTAL</u>	<u>2005 AMOUNT</u>	<u>2006 PERCENT OF TOTAL</u>
Wages and Benefits	\$ 962,530	61.38%	\$1,013,666	63.06%
Services	74,227	4.73%	75,847	4.72%
Supplies and Materials	208,280	13.28%	182,130	11.33%
Utilities	31,293	2.00%	27,368	1.70%
Casualty and Liability	54,648	3.48%	64,200	3.99%
Miscellaneous	16,871	1.08%	12,464	0.78%
Depreciation	220,309	14.05%	231,775	14.42%
	<u>\$1,568,158</u>	<u>100.00%</u>	<u>\$1,607,450</u>	<u>100.00%</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

Capital Assets

The Authority's investment in capital assets as of September 30, 2006, amounted to \$824,929 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2006 included the following:

- Phone system (\$5,076)
- Vehicle (\$4,500 – Net of trade in allowance)

Additional information on the Authority's capital assets can be found in the notes to the financial statements.

Economic Factors and Future Outlook

At the time these financial statements were prepared and audited, the Authority was aware of the following items that could significantly affect its financial health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance grants will be funded.
- As with other employers, the Authority continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.
- The employee contract was negotiated and approved. The contract expires December 31, 2007.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Cadillac-Wexford Transit Authority, 1202 N. Mitchell Street, Cadillac, Michigan 49601.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF NET ASSETS

SEPTEMBER 30,

	2006	2005
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 369,862	\$ 202,803
Accounts Receivable	15,198	16,885
Prepaid Expense	26,852	29,081
Accrued Interest Receivable	0	32
Due from Other Governments	168,047	347,302
Total Current Assets	\$ 579,959	\$ 596,103
<u>PROPERTY AND EQUIPMENT</u>		
Land and Building	\$ 1,028,580	\$ 1,028,580
Buses	1,429,531	1,429,531
Other Vehicles	35,733	45,439
Bus and Garage Equipment	150,568	150,072
Office Equipment	70,712	68,764
	\$ 2,715,124	\$ 2,722,386
Less Accumulated Depreciation	(1,890,195)	(1,687,618)
Net Property and Equipment	\$ 824,929	\$ 1,034,768
TOTAL ASSETS	\$ 1,404,888	\$ 1,630,871

The accompanying notes are an integral part of these financial statements.

	2006	2005
<hr/>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 25,581	\$ 37,381
Accrued Liabilities		
Payroll Withholdings	0	1,859
Salaries and Wages	27,096	30,348
Compensated Absences	70,154	74,625
	<hr/>	
Total Liabilities	\$ 122,831	\$ 144,213
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<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 824,929	\$ 1,034,768
Unrestricted	457,128	451,890
	<hr/>	
Total Net Assets	\$ 1,282,057	\$ 1,486,658
	<hr/>	
TOTAL LIABILITIES AND NET ASSETS	\$ 1,404,888	\$ 1,630,871
	<hr/>	

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30,

	2006	2005
<u>OPERATING REVENUES</u>	\$ 254,156	\$ 247,557
<u>OPERATING EXPENSES</u>	1,568,158	1,607,450
Operating Income (Loss)	\$ (1,314,002)	\$ (1,359,893)
<u>NONOPERATING REVENUES</u>	1,109,401	1,050,450
Income (Loss) before Capital Contributions	\$ (204,601)	\$ (309,443)
<u>CAPITAL CONTRIBUTIONS</u>		
Federal Financial Assistance	\$ 0	\$ 76,664
State of Michigan	0	19,166
Total Capital Contributions	\$ 0	\$ 95,830
Change in Net Assets	\$ (204,601)	\$ (213,613)
<u>TOTAL NET ASSETS - Beginning of Year</u>	1,486,658	1,700,271
<u>TOTAL NET ASSETS - End of Year</u>	\$ 1,282,057	\$ 1,486,658

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 255,843	\$ 249,298
Cash Payments to Suppliers for Goods and Services	(697,324)	(658,035)
Cash Payments to Employees for Services	(669,678)	(683,957)
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ (1,111,159)	\$ (1,092,694)
	<hr/>	<hr/>
Cash Flows from Noncapital Financing Activities:		
Tax Levy Proceeds	\$ 341,934	\$ 312,314
State Operating Grants Received	708,465	434,076
Federal Operating Grants Received	236,379	117,052
	<hr/>	<hr/>
Net Cash Provided by Noncapital Financing Activities	\$ 1,286,778	\$ 863,442
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (10,470)	\$ (100,456)
Capital Grants Received	0	100,364
Proceeds from the Sale of Assets	0	49,400
	<hr/>	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (10,470)	\$ 49,308
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest Received	\$ 1,910	\$ 3,013
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 167,059	\$ (176,931)
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	202,803	379,734
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 369,862	\$ 202,803
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	<u>\$ (1,314,002)</u>	<u>\$ (1,359,893)</u>
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 220,309	\$ 231,775
(Increase) Decrease in Current Assets		
Accounts Receivable	1,687	1,741
Prepaid Expense	2,229	2,102
Increase (Decrease) in Current Liabilities		
Accounts Payable	(11,800)	10,990
Accrued Liabilities	<u>(9,582)</u>	<u>20,591</u>
Total Adjustments	<u>\$ 202,843</u>	<u>\$ 267,199</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (1,111,159)</u></u>	<u><u>\$ (1,092,694)</u></u>

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Cadillac-Wexford Transit Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

On June 23, 1981, the City of Cadillac and the County of Wexford created the Cadillac-Wexford Transit Authority, a separate legal and administrative unit of government pursuant to the Urban Cooperation Act. The purpose of the Authority is to provide public transportation services to the general public within Wexford County. The Authority began to provide transportation services on September 1, 1982. The Transit Authority is financed by state and federal subsidies as well as a county-wide property tax levy.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

When both restricted and unrestricted resources are available for use, it is the Authority's policy use the restricted resources first, then unrestricted resources as they are needed.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Authority's investment policy is in compliance with state law and authorizes the Authority to invest in investments authorized by Act 20 of the Public Acts of Michigan of 1943, as amended, provided however, any investment in mutual funds authorized by Act 20 shall be limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. Capital Assets and Depreciation

Capital assets are defined by the transit authority as assets with an initial, individual cost of more than \$5,000, except for assets purchased with Federal and/or State grants which are capitalized regardless of the amount and an estimated useful life in excess of one year. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by an Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

3. Inventory and Prepaid Items

The Authority does not maintain a fuel inventory. Supply inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

4. Compensated Absences

The Authority accrues sick and vacation benefits in the period they are earned. Vacation leave is earned in varying amounts depending on the number of years of service of an employee. At September 30, 2006 and 2005, the sick and vacation benefits accrued was \$70,154 and \$74,625, respectively.

5. Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

II. DETAILED NOTES ON ALL FUNDS

A. **Property and Equipment**

A summary of changes in the Authority's capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, not being depreciated				
Land	\$ 46,225	\$ 0	\$ 0	\$ 46,225
Capital assets, being depreciated				
Buildings	\$ 982,355	\$ 0	\$ 0	\$ 982,355
Buses	1,429,531	0	0	1,429,531
Other Vehicles	45,439	10,956	20,661	35,734
Bus and Garage Equipment	150,072	495	0	150,567
Office Equipment	68,764	5,476	3,528	70,712
Total capital assets, being depreciated	\$ 2,676,161	\$ 16,927	\$ 24,189	\$ 2,668,899
Less accumulated depreciation for:				
Buildings	\$ 501,569	\$ 49,219	\$ 0	\$ 550,788
Buses	979,584	149,299	0	1,128,883
Other Vehicles	35,966	4,154	14,204	25,916
Bus and Garage Equipment	118,690	11,137	0	129,827
Office Equipment	51,809	6,500	3,528	54,781
Total accumulated depreciated	\$ 1,687,618	\$ 220,309	\$ 17,732	\$ 1,890,195
Total capital assets, being depreciated, net	\$ 988,543	\$ (203,382)	\$ (6,457)	\$ 778,704
Business-type activities capital assets, net	\$ 1,034,768	\$ (203,382)	\$ (6,457)	\$ 824,929

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

Major classes of property and equipment consist of the following:

	PURCHASED WITH AUTHORITY FUNDS	PURCHASED WITH CAPITAL GRANTS	TOTAL
Land and Buildings	\$ 291,533	\$ 737,047	\$ 1,028,580
Buses	58,037	1,371,494	1,429,531
Other Vehicles	10,956	24,778	35,734
Bus and Garage Equipment	57,647	92,920	150,567
Office Equipment	30,379	40,333	70,712
	<hr/>	<hr/>	<hr/>
	\$ 448,552	\$ 2,266,572	\$ 2,715,124
Less Accumulated Depreciation	(276,325)	(1,613,870)	(1,890,195)
	<hr/>	<hr/>	<hr/>
NET PROPERTY AND EQUIPMENT	<u>\$ 172,227</u>	<u>\$ 652,702</u>	<u>\$ 824,929</u>

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

B. Receivables

Receivables as of year end for the Authority are as follows:

Receivables	
Accounts	<u>\$ 15,198</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

C. Property Taxes

The Authority levies a voter-approved, county-wide property tax at the rate of .4000 of one mill. The voters granted the authority to levy .4000 of one mill for 2003 through 2006 tax rolls and .6000 of one mill for the 2007 through 2010 tax rolls. Property taxes attach as an enforceable lien on the property as of the date they are levied. The taxes are levied and due December 1, and become delinquent after February 14. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period. The taxes are recognized as revenue in the year in which payment is collected. Wexford County has a tax revolving fund which allows the County to pay off the real property taxes which have been returned delinquent.

D. Deposits and Investments

Investment rate risk. The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Authority's cash requirement.

Foreign currency risk. The Authority is not authorized to invest in investments, which have this type of risk.

Credit risk. The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

Concentration of credit risk. The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2006, the carrying amount of the Authority's deposits was \$369,862 and the bank balance of \$379,529 of which \$100,000 was covered by federal depository insurance and \$279,529 was uninsured and uncollateralized.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At year end the Authority held no investments.

E. Contingencies

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2003, 2004, 2005 and 2006 either have not commenced or have not been completed.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Authority carries commercial insurance to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this coverage in any of the past four fiscal years.

For its property and casualty insurance coverage, the Authority is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Authority pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Authority would receive a pro rata assessment for their share of the loss. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

H. Concentration of Credit Risk

For the fiscal year ended September 30, 2006, the Authority was reimbursed by the State of Michigan for 39.2545% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the State. Therefore, the percentage will be recalculated after total eligible operating expenses are determined based on audited figures.

I. Employee Retirement System

For the year ended September 30, 2000, the Cadillac-Wexford Transit Authority began contributing to the Municipal Employees Retirement System of Michigan (MERS).

Plan Description. Substantially all full-time employees of the Authority are members of the **Municipal Employees Retirement System of Michigan** (MERS) which provides retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer pension plan. Act No. 427 of the Public Acts of 1984, as amended, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case, the authority rests with the Cadillac-Wexford Transit Authority. The MERS issues a publicly available financial report that includes statements and required supplementary information for MERS. That report may be obtained by writing to The Retirement Board, Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy. MERS members are not required to make any contributions to the plan. The Authority is required to contribute at an actuarially determined rate; the current rate is 11.30% to 21.73% of annual covered payroll depending on division of employees.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. Employee Retirement System

Annual Pension Cost. For the years ended September 30, 2006 and 2005, the annual pension cost was \$55,293 and \$57,172.

THREE-YEAR TREND INFORMATION FOR MERS

FISCAL YEAR ENDING	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
9/30/04	48,750	100%	0
9/30/05	57,172	100%	0
9/30/06	55,293	100%	0

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	2006	2005
<u>OPERATING REVENUES</u>		
Fares	\$ 241,912	\$ 233,577
Greyhound and Indian Trail Commissions	9,267	8,891
Other	2,977	5,089
	<u>\$ 254,156</u>	<u>\$ 247,557</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF OPERATING EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2006

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2005

	2006				2005
	GENERAL		TOTAL		TOTAL
	OPERATIONS	MAINTENANCE	ADMINISTRATION	SYSTEM	SYSTEM
Labor					
Drivers and Dispatchers	\$ 403,856	\$ 0	\$ 0	\$ 403,856	\$ 411,952
Agents	21,591	0	0	21,591	21,200
Maintenance	0	53,392	0	53,392	53,141
Administration	15,933	38,728	128,455	183,116	218,255
Fringe Benefits					
FICA	34,130	6,919	9,815	50,864	52,334
Unemployment Taxes	6,484	827	704	8,015	9,721
Retirement	22,535	12,128	20,630	55,293	69,194
Group Insurance	54,763	38,393	31,039	124,195	102,843
Workers' Compensation	42,240	5,823	747	48,810	57,511
Uniforms and Other	10,804	642	1,952	13,398	17,515
Services					
Professional	4,981	0	47,375	52,356	47,844
Maintenance	0	21,871	0	21,871	28,003
Materials and Supplies Consumed					
Fuel and Lubricants	129,614	0	0	129,614	105,388
Tires and Tubes	14,193	0	0	14,193	4,803
Other Materials and Supplies	3,416	53,685	7,372	64,473	71,939
Utilities	22,620	0	8,673	31,293	27,368
Casualty and Liability Costs	44,397	0	10,251	54,648	64,200
Miscellaneous Expenses				0	
Advertising/Promotion Media	0	0	3,478	3,478	2,043
Dues and Subscriptions	0	0	4,212	4,212	1,930
Travel and Meetings	4,857	0	4,324	9,181	8,491
Depreciation	202,672	11,137	6,500	220,309	231,775
	<u>\$ 1,039,086</u>	<u>\$ 243,545</u>	<u>\$ 285,527</u>	<u>\$1,568,158</u>	<u>\$1,607,450</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE SCHEDULE OF NONOPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	2006	2005
<u>LOCAL SOURCES</u>		
Tax Levy	\$ 341,934	\$ 312,314
<u>STATE SOURCES</u>		
State of Michigan Operating Grants		
Local Buss Operating Assistance (Act 51)		
Prior Year Adjustment - 2002	\$ (11,302)	\$ 0
Prior Year Adjustment - 2000	0	16,195
Prior Year Adjustment - 2001	0	1,334
2005	0	540,887
2006	540,861	0
Total State Sources	\$ 529,559	\$ 558,416
<u>FEDERAL SOURCES</u>		
U.S. Department of Transportation		
Operating Grant - Section 5311		
Contract No. 02-0023/Z11	\$ 0	\$ 173,722
Contract No. 02-0023/Z13	233,139	0
Rural Transit Assistance Program	2,891	2,668
Total Federal Sources	\$ 236,030	\$ 176,390
<u>OTHER</u>		
Interest Income	\$ 1,878	\$ 2,930
Gain on Sale of Assets	0	400
Total Other	\$ 1,878	\$ 3,330
TOTAL NONOPERATING REVENUES	\$ 1,109,401	\$ 1,050,450

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF FEDERAL AND STATE GRANTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	DUE FROM (TO) STATE		RECEIVED NET OF		DUE FROM (TO) STATE	
	10/1/2005	ADJUSTMENTS	EARNED	(REPAYMENTS)	9/30/2006	
<u>OPERATING ASSISTANCE</u>						
Operating Assistance						
2000	\$ 36,017	\$ 0		\$ 36,017	\$ 0	
2001	51	0		51	0	
2002	9,164	(11,302)		(2,138)	0	
2003	9,431	0		807	8,624	
2004	86,589	0		91,699	(5,110)	
2005	106,811	0		63,986	42,825	
2006	0	0	540,861	518,043	22,818	
	<u>\$ 248,063</u>	<u>\$ (11,302)</u>	<u>\$ 540,861</u>	<u>\$ 708,465</u>	<u>\$ 69,157</u>	
Federal Section 5311						
02-0023/Z5	\$ 9,146	\$ 0	\$ 0	\$ 9,146	\$ 0	
02-0023/Z7	21,778	0	0	0	21,778	
RTAP-05/06	0	0	2,891	0	2,891	
RTAP-04/05	2,176	0	0	2,176	0	
02-0023/Z11	66,139	0	0	32,450	33,689	
02-0023/Z13	0	0	233,139	192,607	40,532	
	<u>\$ 99,239</u>	<u>\$ 0</u>	<u>\$ 236,030</u>	<u>\$ 236,379</u>	<u>\$ 98,890</u>	
Total Operating Assistance	\$ 347,302	\$ (11,302)	\$ 776,891	\$ 944,844	\$ 168,047	
<u>CAPITAL GRANTS</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
TOTAL FEDERAL AND STATE GRANTS	<u>\$ 347,302</u>	<u>\$ (11,302)</u>	<u>\$ 776,891</u>	<u>\$ 944,844</u>	<u>\$ 168,047</u>	

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>RTAP</u>	<u>OPERATIONS</u>	<u>TOTAL</u>
Labor	\$ 0	\$ 661,955	\$ 661,955
Fringe Benefits	0	300,575	300,575
Services	0	74,227	74,227
Materials and Supplies	0	208,280	208,280
Utilities	0	31,293	31,293
Casualty and Liability Costs	0	54,648	54,648
Miscellaneous Expenses	2,891	13,980	16,871
Depreciation	0	220,309	220,309
TOTAL EXPENSES	<u>\$ 2,891</u>	<u>\$ 1,565,267</u>	<u>\$ 1,568,158</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	FEDERAL SECTION 5311 PROJECT NO. 02-0023/Z13	STATE OPERATING ASSISTANCE (ACT 51)
Operating Expenses		
Labor	\$ 661,955	\$ 661,955
Fringe Benefits	300,575	300,575
Services	74,227	74,227
Materials and Supplies	208,280	208,280
Utilities	31,293	31,293
Casualty and Liability Costs	54,648	54,648
Miscellaneous Expenses	13,980	13,980
Depreciation	220,309	220,309
Total Expense	<u>\$ 1,565,267</u>	<u>\$ 1,565,267</u>
Less Ineligible Expenses		
Depreciation	\$ 187,284	\$ 187,284
Mass Transit Dues	150	150
Audit Fees	6,425	0
Total Ineligible Expenses	<u>\$ 193,859</u>	<u>\$ 187,434</u>
NET ELIGIBLE EXPENSES	<u>\$ 1,371,408</u>	<u>\$ 1,377,833</u>
Federal		
Section 5311 Reimbursement (17.00%)	<u>\$ 233,139</u>	
State Statutory Operating Assistance		
39.2545% of Net Eligible Expenses		<u>\$ 540,861</u>
But at Least a Minimum of Its:		
1997 Floor of \$300,361		

CADILLAC-WEXFORD TRANSIT AUTHORITY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

SCHEDULE OF MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(UNAUDITED)

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2006. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

	<u>TOTAL PUBLIC TRANSPORTATION MILEAGE</u>
<u>DEMAND-RESPONSE</u>	
Quarter Ended	
December 31, 2005	103,301
March 31, 2006	106,104
June 30, 2006	108,178
September 30, 2006	<u>116,348</u>
	<u><u>433,931</u></u>